

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM STATEMENT OF INVESTMENT POLICY

FOR GLOBAL PROXY VOTING

March 17, 2008~~March 12, 2007~~

This Policy is effective immediately upon adoption and supersedes all previous Global Proxy Voting policies. This document is adopted pursuant to California Government Code sections 20120, 20190 and 20209, and California Constitution, article XVI, section 17.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("~~the~~ Policy") for Global Equity, with respect to Global Proxy Voting. In addition, this Policy applies to the Corporate Governance engagement process and other governance ~~strategie~~ initiatives. Additionally, The use of this Policy provides assurance that there is sufficient flexibility in managing ~~controlling~~ investment risks and returns associated with proxy voting, corporate engagement, and other corporate governance ~~strategie~~ initiatives within the global capital markets.

II. FIDUCIARY DUTIES OVERVIEW

The CalPERS Board of Administration functions as fiduciaries. As fiduciaries, they must discharge their responsibilities in accordance with the twin duties of loyalty and care.

The duty of loyalty requires the Board and other CalPERS fiduciaries to act solely in the interest of members and beneficiaries. Under the duty of care, the Board and other CalPERS fiduciaries must manage Fund assets as a "prudent investor." Essentially, this requires the exercise of care, skill and diligence that a prudent person, familiar with the matters, would exercise under similar circumstances in managing a pension fund of like size. More explicitly, CalPERS fiduciaries must seek to maximize investment returns, while minimizing risk of loss. The duty of care safeguards the payment objectives of the Fund, to ensure that the defined benefits can be paid when due at the time of retirement or death. The Board also has a duty to maximize the value of its investments, in order to avoid the increases in state and local government taxes that might otherwise be needed to pay the employer's share of costs.

Inherent within the concept of prudence is the duty to monitor investment performance.¹ The U.S. Department of Labor (DOL), entrusted with oversight of the Employee Retirement Income and Security Act of 1974 (ERISA), has warned private pension fiduciaries that they may be held accountable for screening the performance of holdings, even those held under passive strategies.² In 1988, the DOL issued its so-called Avon Letter, putting private pension plan trustees on notice that proxy voting rights must be diligently exercised as an aspect of fiduciary duty.³ In 1994 the DOL updated its Avon Letter in a bulletin that consolidates the voting requirements of ERISA fiduciaries. The DOL now advocates a corporate activist role for pension plan trustees, to include ". . . activities intended to monitor or influence corporate management."⁴

III. GLOBAL PRINCIPLES OF ACCOUNTABLE CORPORATE GOVERNANCE

CalPERS has maintained an active Corporate Governance⁵ Program since 1984. To define the scope of this Program, the Board has adopted the Global Principles of Accountable Corporate Governance ("Global Principles"). ~~a series of Corporate Governance Principles:~~

~~A. Core Principles of Accountable Corporate Governance~~

~~B. Global Principles of Accountable Corporate Governance⁶:~~

The underlying tenet for the Global Principles ~~all of these principles~~ is that fully accountable governance structures produce, over the long-term, the best returns to shareowners.

IV. IMPLEMENTATION OF PRINCIPLES

~~4. The System's Investment Committee ("the Investment Committee") is responsible for approving and amending this Policy.~~

¹Richard H. Koppes and Maureen L. Reilly, An Ounce of Prevention: Meeting the Fiduciary Duty to Monitor an Index Fund, The J. of Corp. Law, Univ. of Iowa (Summer 1995).

²See 29 C.F.R. sec. 2550.404a-1, DOL preamble to proposed regulations for the investment of plan assets, at fn. 7.

³DOL Op. Ltr. to Helmuth Fandl, Avon Products, Inc. (Feb. 29, 1988).

⁴DOL Interp. Bulletin 94-1 (July 1994).

⁵~~"Corporate Governance," at CalPERS, means the "relationship among various participants in determining the direction and performance of corporations. The primary participants are (1) shareowners, (2) management (led by the chief executive officer), and (3) the board of directors." (Robert A.G. Monks and Nell Minow, CORPORATE GOVERNANCE 1 (1995).)~~

⁶~~CalPERS' Global Governance Principles embrace those adopted by the International Corporate Governance Network (ICGN).~~

~~Copyright © 20087 by CalPERS. Reproduction of any part of this manual is permissible if reproduction contains notice of CalPERS' copyright as follows: "Copyright © 20087 by CalPERS".~~

5. CalPERS' The System's Investment Staff's ("the Staff") is responsible for duties include, but are not limited to, the following responsibilities:

1. Reporting to the Committee

- a. An annual update, within the first quarter of each calendar year, to include at a minimum an update to the Board's Global Principles of Accountable Corporate Governance.
- b. Detailed quarterly reports explaining all votes made under this delegated responsibility. These reports shall be a public document.
- c. Staff shall report material concerns, problems, and violations of this policy at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

2. Proxy Voting Instructions

- a. Staff will execute all proxies and voting instructions in a manner that is consistent with the Board's Global Principles of Accountable Corporate Governance unless:
 - i. Such a vote may result in long-term harm to the company that outweighs all reasonably likely long-term benefit to the company (i.e., is inconsistent with the Board's fiduciary duties).
 - ii. Such a vote is contrary to the interests of the members and beneficiaries of CalPERS' system under the Board's fiduciary duties.

6.b. Executing proxies and voting instructions includes, but is not limited to:

- i. Casting votes in favor of or "For", an individual or slate of director nominees up for election that Staff believes will effectively oversee CalPERS interests as a shareowner consistent with the Board's Global Principles of Accountable Corporate Governance.
- ii. Withholding votes from or "Against", an individual or slate of director nominees at companies that Staff

believes will not effectively oversee CalPERS interests as a shareowner consistent with the Board's Global Principles of Accountable Corporate Governance or in limited circumstances where a company has consistently demonstrated long-term economic underperformance.

iii. Supporting or voting "For" management or shareowner resolutions that are consistent with the Board's Global Principles of Accountable Corporate Governance.

iv. Withholding support or voting "Against" management or shareowner resolutions that are not consistent with the Board's Global Principles of Accountable Corporate Governance.

Staff must seek approval from the Board, through its Committee, on proxy issues not clearly covered by these Global Principles.

~~1. Developing and recommending this Policy to the Investment Committee.~~

~~2. Developing and maintaining a procedures manual, subject to periodic reviews and updates, outlining Staff operational procedures used in implementing this Policy.~~

~~3. Implementing and adhering to this Policy.~~

~~C. In accordance with delegations granted by the Investment Committee, Staff will execute all proxies and voting instructions in a manner that is consistent with the Board's Principles of Accountable Corporate Governance unless:~~

~~a. Such a vote may result in long-term harm to the company that outweighs all reasonably likely long-term benefit to the company (i.e., is inconsistent with the Board's fiduciary duties).~~

~~b. Such a vote is contrary to the interests of the members and beneficiaries of CalPERS' system under the Board's fiduciary duties.~~

~~7. Executing proxies and voting instructions includes, but is not limited to:~~

~~c. Casting votes in favor of or "For", an individual or slate of director nominees up for election that Staff believes will effectively oversee CalPERS interests as a shareowner consistent with the Board's Principles of Accountable Corporate Governance.~~

~~d. Withholding votes from or “Against”, an individual or slate of director nominees at companies that Staff believes will not effectively oversee CalPERS interests as a shareowner consistent with the Board’s Principles of Accountable Corporate Governance or in limited circumstances where a company has consistently demonstrated long-term economic underperformance.~~

~~e. Supporting or voting “For” management or shareowner resolutions that are consistent with the Board’s Principles of Accountable Corporate Governance.~~

~~f. Withholding support or voting “Against” management or shareowner resolutions that are not consistent with the Board’s Principles of Accountable Corporate Governance.~~

~~Staff must seek approval from the Board, through its Investment Committee, on proxy issues not clearly covered by these Principles.~~

~~V. REPORTING TO THE INVESTMENT COMMITTEE~~

~~Staff will provide the Board, through its Investment Committee, with:~~

~~A. An annual update, within the first quarter of each calendar year, to include at a minimum an update to the Board’s Global Principles of Accountable Corporate Governance.~~

~~B. Detailed quarterly reports explaining all votes made under this delegated responsibility. These reports shall be a public document.~~

~~VI. GLOSSARY OF TERMS~~

~~Definitions for Key words used in this policy are defined located in the Miscellaneous Glossary of Terms which is included in CalPERS’ the System’s Master Glossary of Terms.~~

Global Proxy Voting Principles

Adopted by the Investment Committee: February 14, 2000

Revised by the Investment Committee: March 19, 2001

Revised by the Investment Committee: May 16, 2005

Revised by the Policy Subcommittee: February 20, 2007

Adopted by the Investment Committee: March 12, 2007

Revised by the Policy Subcommittee: March 17, 2008